DEPARTMENT OF JUSTICE

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND

FINANCIAL STATEMENTS

For the Year Ended March 31, 2000

Provincial Auditor Saskatchewan

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AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the balance sheet of the Correctional Facilities Industries Revolving Fund as at March 31, 2000 and the statements of operations and accumulated operating surplus/deficit and changes in accumulated net expenditure for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Regina, Saskatchewan
July 21, 2000

Fred Wendel, CMA, CA
Acting Provincial Auditor

Statement 1

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
BALANCE SHEET
AS AT MARCH 31

	2000	1999
ASSETS		
Current assets:		
Accounts receivable	$ 175,254	$ 328,922
Inventory	192,329	210,512
	367,583	539,434
Capital assets (Note 5)	102,027	139,341
	$ 469,610	$ 678,775
LIABILITIES AND FUND EQUITY		
Current liabilities:		
Accounts payable	$ 41,053	$ 130,927
Non-Current liabilities:		
Accumulated net expenditure (Statement 3)	502,273	766,284
Fund equity:		
Accumulated operating deficit (Statement 2)	(73,716)	(218,436)
	$ 469,610	$ 678,775

(See accompanying notes to the financial statements)

Statement 2

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
STATEMENT OF OPERATIONS
AND ACCUMULATED OPERATING SURPLUS/DEFICIT
FOR THE YEAR ENDED MARCH 31

	2000		1999
	Budget (Note 10)	Actual	Actual
Sales	$ 1,253,000	$ 742,702	$ 933,058
Cost of goods sold (Note 6)	1,110,019	671,168	817,904
Gross profit	142,981	71,534	115,154
Operating expenses:			
Salaries	235,130	236,001	229,566
Office supplies	4,150	3,069	6,010
Repairs and maintenance	8,750	3,389	8,397
Delivery	1,950	1,905	3,852
Travel	11,150	9,917	14,453
Warranty	2,600	2,059	500
Amortization	7,589	2,830	2,838
Bad debts/allowance (recovery)	3,230	23,332	2,402
Inmate assessment	23,000	20,045	22,707
Advertising	200	—	4,380
Miscellaneous	4,825	8,664	12,495
	302,574	311,211	307,600
Loss from operations	(159,593)	(239,677)	(192,446)
Other income	—	310	7,019
Gain on sale of assets	—	5,087	20,548
Subsidy and recovery from General Revenue Fund (Note 4)	142,000	379,000	142,000
Net income (loss)	$ (17,593)	144,720	(22,879)
Accumulated operating (deficit), beginning of year		(218,436)	(195,557)
Accumulated operating (deficit), end of year - to Statement 1		$ (73,716)	$ (218,436)

(See accompanying notes to the financial statements)

Statement 3

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
STATEMENT OF CHANGES IN ACCUMULATED NET EXPENDITURE
FOR THE YEAR ENDED MARCH 31

	2000	1999
Financing (provided by) required for operating activities:		
Net (income) loss	$ (144,720)	$ 22,879
Items not affecting working capital		
- amortization	(37,929)	(42,933)
- gain (loss) on disposal of capital assets	5,087	20,548
Working capital changes related to operations		
(Decrease) increase in accounts receivable	(153,668)	18,140
(Decrease) in inventories	(18,183)	(30,036)
Decrease in current liabilities	89,874	2,641
	(259,539)	(8,761)
Financing (provided by) required for investing activities:		
Purchase of capital assets	6,155	20,262
Proceeds from sale of capital assets	(10,627)	(23,960)
	(4,472)	(3,698)
Net expenditure/(recovery):	(264,011)	(12,459)
Accumulated net expenditure, beginning of year	766,284	778,743
Accumulated net expenditure, end of year - to Statement 1	$ 502,273	$ 766,284

(See accompanying notes to the financial statements)

CORRECTIONAL FACILITIES INDUSTRIES REVOLVING FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2000

1. Authority and Definition of Reporting Entity

The Revolving Fund operates under the authority of Section 53 of *The Correctional Services Act*. The purpose of the Revolving Fund is to rehabilitate inmates by operating work programs intended to provide practical and marketable work skills for inmates and to reduce the costs of inmate programming.

2. Accounting Policies

The financial statements are prepared using generally accepted accounting principles. These financial statements do not present a cash flow statement because the required cash flow information is readily apparent from the Statement of Changes in Accumulated Net Expenditure. The following accounting policies are considered significant:

a) Net Expenditure/(Recovery)

The net cash expenditure/(recovery) is the cash flow from/(to) the General Revenue Fund. It represents the total annual financing requirements resulting from the acquisitions, working capital changes and net cash flows from operations.

b) Accumulated Net Expenditure

The accumulated net expenditure of the Revolving Fund includes the following:

i) the net expenditure/(recovery) for each fiscal year, and

ii) the book value of assets acquired at no charge from other government agencies.

c) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined by using the first in, first out method.

d) Capital Assets

Capital assets are recorded at cost. The cost and related accumulated amortization of items retired or disposed of are removed from the records and any gains or losses are included in the statement of operations.

Amortization is calculated on the straight-line basis at an annual rate of 10% for equipment and leasehold improvements and on a diminishing balance basis at an annual rate of 30% for tools and other assets.

Computer equipment is amortized on a straight-line basis over 3 years.

3. Authorized Financing

Subsection 53 (10) of *The Correctional Services Act* specifies that the maximum amount of accumulated net expenditure which may be outstanding at any time will be set by order of the Lieutenant Governor in Council. A maximum amount of $900,000 was established by Order in Council 816/89.

4. Disposition of Accumulated Operating Surplus or Deficit

In accordance with subsection 53 (4) of *The Correctional Services Act*, the Minister shall pay to the General Revenue Fund all or any part of any surplus in the Revolving Fund that Treasury Board may direct. Treasury Board has specified that the maximum accumulated surplus/deficit for the Revolving Fund shall be $100,000. Treasury Board has also specified that if at the end of a fiscal year the accumulated surplus/deficit exceeds the maximum, then any surplus/deficit in excess of the maximum shall, as soon as possible after the close of the fiscal year, be paid to/from the General Revenue Fund. During the year, the Revolving Fund received $237,000 as a deficit recovery from the General Revenue Fund.

However, if any deficit is in fact a subsidy and not a deficit due to business fluctuations, it must be recovered from the General Revenue Fund (Department of Justice's appropriation) in the same year. The Department budgets for a subsidy to the Revolving Fund in the same year that the deficit is expected to occur. During the year, the Revolving Fund received $142,000 as a subsidy from the General Revenue Fund.

5. Capital Assets

	2000			1999		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Equipment	$ 256,479	$ 181,666	$ 74,813	$ 267,542	$ 169,616	$ 97,926
Tools	55,055	46,792	8,263	54,468	43,251	11,217
Leasehold Improvements	70,268	57,236	13,032	70,269	50,209	20,060
Other	25,779	19,860	5,919	29,813	19,675	10,138
	$ 407,581	$ 305,554	$ 102,027	$ 422,092	$ 282,751	$ 139,341

6. Cost of Goods Sold

Cost of goods sold consists of the following:

	2000	1999
Materials	$ 297,890	$ 418,175
Supplies	18,648	21,293
Small tools	2,656	8,466
Inmate labour	34,726	41,302
Inmate incentive	70,012	82,403
Amortization	35,099	40,093
Staff salaries	194,478	184,998
Shop expense	17,659	21,174
	$ 671,168	$ 817,904

7. Amount Reported in the Public Accounts

The net recovery of the Revolving Fund reported in Public Accounts is the net income of the Revolving Fund adjusted for differences in accounting policies and other adjustments between the Revolving Fund and the General Revenue Fund:

	2000	1999
Net income (loss)	$ 144,720	$ (22,879)
Decrease in inventory balance	18,183	30,036
Decrease in net capital assets	37,314	26,083
Amounts not included in Public Accounts due to timing	13,757	(8,810)
Net recovery reported in the Public Accounts	$ 213,974	$ 24,430

8. Related Parties

These financial statements include transactions with related parties. The Revolving Fund is related to all Saskatchewan Crown agencies such as departments, corporations, agencies, boards and commissions under the common control of the Government of Saskatchewan. Also, the Revolving Fund is related to enterprises that the Government jointly controls or significantly influences.

Routine operating transactions with related parties are settled on normal trade terms. These transactions, and amounts outstanding, at year end are as follows:

	2000	1999
Revenue	$ 264,194	$ 324,018
Accounts receivable	24,141	68,608

In addition, the Fund pays Saskatchewan Education and Health Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and notes thereto.

In accordance with established government policy, the Fund has not been charged with certain costs including occupancy, financing and certain administrative costs. These costs have been absorbed by the various departmental appropriations and therefore no provision for such costs is reflected in these financial statements.

9. Financial Instruments

The Revolving Fund's financial instruments consist of accounts receivable, accounts payable and accumulated net expenditure.

a) Significant terms and conditions

There are no significant terms and conditions related to the financial instruments that may affect the amount, timing and certainty of future cash flows.

b) Credit risk

The Revolving Fund is exposed to credit risk from the potential non-payment of accounts receivable. Accounts receivable balances are with many customers, therefore, credit risk is minimal.

c) Fair value

The carrying amounts approximate fair value due to their immediate or short-term nature. The fair value of the accumulated net expenditure has been omitted because it is not practicable to determine the fair value with sufficient reliability.

10. Budget

These amounts are included in the budget submitted to Treasury Board for approval. Treasury Board approves the Revolving Fund's budget annually.

11. Contingency

The Revolving Fund has been sued regarding the manufacture of a play structure. The merits of the claim are unknown and an estimate of the extent of damages, if any, cannot be made.